

September 8, 2008

U.S. Securities and Exchange Commission
Attn: Secretary
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-15-08, *Modernization of the Oil and Gas Reporting Requirements*

Dear Secretary:

Deloitte & Touche LLP is pleased to comment on the Commission's proposed rule, *Modernization of the Oil and Gas Reporting Requirements* (Release Nos. 33-8935; 34-58030; the "Release"). Rather than respond to each individual element of the Release, we wish to take this opportunity to provide the Commission with our broader perspectives on this initiative.

Overall, we support the Commission's initiative to provide investors with more meaningful disclosures about oil and gas reserves. However, we believe the Commission should clarify or revise certain aspects of the Release and the proposed rule, as discussed below.

Disclosures Should Be Based on a Single Set of Definitions

As we expressed in our February 2008 comment letter on the related Concept Release,¹ we believe that the foundation for disclosures of oil and gas reserves should be a single, commonly understood definition of terms. The Release states that "the proposed definitions are not totally consistent with either PRMS or NI 51-101."² Different definitions (or slightly different definitions, as presented in the Release) can result in misunderstandings, differing interpretations, and diversity in application, which diminish the value of information. We recommend that the Commission adopt the PRMS definitional framework, which was jointly developed by the Society of Petroleum Engineers (SPE), the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. The PRMS definitions are widely used and well understood in the industry on both a domestic and an international level.

The Release proposes that the definition of oil and gas producing activities include nontraditional resources, such as "bitumen extracted from oil sands, as well as oil and gas extracted from coalbeds and shales." We support the inclusion of these resources in the definition of oil and gas producing activities. The PRMS definition of reserves includes these resources. Therefore, by adopting the PRMS definition of reserves as written, the Commission would be adding these

¹ *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (the "Concept Release").

² Petroleum Resource Management System (PRMS) and Canadian National Instrument 51-101 (NI 51-101).

resources to the proposed disclosures. Similarly, other changes to the disclosures that are generally accepted in the industry could be made by simply adopting the PRMS definitions.

Consistency in Accounting and Disclosure Methods

Throughout the Release, changes to the rules are proposed that could lead to differences in how (1) an entity accounts for oil and gas exploration, development, and producing activities and (2) the entity discloses the underlying oil and gas reserves. Certain aspects of the FASB and SEC accounting literature (e.g., the pricing used to estimate reserve quantities in Statement 19,³ as amended by paragraph 7 of Statement 25⁴) refer to the Regulation S-X definitions for reporting purposes; thus, changes the Commission makes as a result of this proposed rule will be reflected in these areas. However, this is not the case for all the changes that the Release proposes. (For example, Statement 19 would need to be amended to add nontraditional resources to its scope.) We highlight some of these differences throughout this letter. In addition, Statement 69⁵ does not refer to the Commission's definitions. If the proposed release is adopted as written without corresponding changes to Statement 69, preparers and auditors may conclude that two sets of reserves disclosures are required, one using the provisions of the SEC rules and one using the provisions of Statement 69. We believe that such inconsistencies will result in complexity among the different sources of accounting guidance, confusion to users, and costs to preparers.

With respect to auditor requirements, AU Sections 558⁶ and 9558⁷ (as promulgated by the Auditing Standards Board and as adopted by the PCAOB in Rule 3200T⁸) detail the procedures for auditors regarding the supplemental information required by Statement 69. We believe that the inconsistencies between the accounting and disclosure methods may lead to complexity in the auditing guidance and its application because some procedures that auditors need to perform relate to consistency between the accounting and the disclosures.

The Commission should work with the FASB, IASB, PCAOB, AICPA, and other organizations to revise the accounting and auditing regulations, as necessary, to ensure that there is consistency between these regulations and thus to avoid unnecessary complexity, confusion, and costs to preparers.

Pricing Methods

The Release proposes to “change the price used in calculating reserves from a single-day closing price measured on the last day of the company's fiscal year to an average price for the 12 months prior to the end of the company's fiscal year.” We agree that the use of a single-day spot price is

³ FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*.

⁴ FASB Statement No. 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies* — an amendment of FASB Statement No. 19.

⁵ FASB Statement No. 69, *Disclosures About Oil and Gas Producing Activities* — an amendment of FASB Statements No. 19, 25, 33, and 39.

⁶ AICPA *Professional Standards*, AU Section 558, “Required Supplementary Information.”

⁷ AICPA *Professional Standards*, AU Section 9558, “Required Supplementary Information: Auditing Interpretations of Section 558.”

⁸ PCAOB Rule No. 3200T, *Interim Auditing Standards*.

